

**CHAUTAUQUA COUNTY
RURAL WATER DISTRICT NO. 4**

AUDIT REPORT

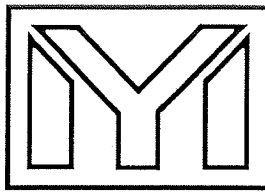
December 31, 2011

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

December 31, 2011

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1 - 2
STATEMENT 1 Summary of Cash Receipts, Expenditures, and Unencumbered Cash For the Year Ended December 31, 2011	3
STATEMENT 2 Statement of Cash Receipts and Expenditures - For the Year Ended December 31, 2011	
BOND AND INTEREST FUND	4
WATER CONSTRUCTION FUND	5
WATER OPERATIONS FUND	6
NOTES TO THE FINANCIAL STATEMENTS	7 – 14
<u>SUPPLEMENTAL INFORMATION</u>	
Schedule of Expenditures of Federal Awards	15
Notes to the Schedule of Expenditures of Federal Awards	16
Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17 - 18
Report of Independent Certified Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	19 – 20
Schedule of Findings and Questioned Costs	21 – 22
Summary Schedule of Prior Audit Findings	23
Corrective Action Plan	24



YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

John D. Carroll, CPA
Carmen R. Duroni, CPA

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American Institute of Certified Public Accountants
Kansas Society of Certified Public Accountants
An Independent C.P.A. Firm

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Chautauqua County Rural Water District No. 4
321 E. Main
Sedan, KS 67361

We have audited the accompanying summary of cash receipts, expenditures, and unencumbered cash - statutory basis of the Chautauqua County Rural Water District No. 4, Sedan, Kansas, as of and for the year ended December 31, 2011, and the related statement of cash receipts and expenditures of the individual funds - statutory basis for the year then ended. These financial statements are the responsibility of the Water District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1B, the Chautauqua County Rural Water District No. 4, Sedan, Kansas, prepared these statutory basis financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the statutory basis financial statements of the differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory basis financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Chautauqua County Rural Water District No. 4, Sedan, Kansas, as of December 31, 2011, or changes in financial position, or cash flows thereof for the year then ended.

Also, in our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each of the various funds of the Chautauqua County Rural Water District No. 4, Sedan, Kansas, as of December 31, 2011, and their respective cash receipts and expenditures for such funds for the year then ended, on the basis of accounting described in Note 1B.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012 on our consideration of Chautauqua County Rural Water District No. 4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the statutory basis financial statements of Chautauqua County Rural Water District No. 4 taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the statutory basis financial statements. The Schedule of Findings and Questioned Costs, Summary Schedule of Prior Audit Findings, and Corrective Action Plan are presented for the purpose of additional analysis and are not a required part of the statutory basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements of the Water District taken as a whole, on the basis of accounting described in Note 1B.


YERKES & MICHELS, CPA, LLC

September 28, 2012

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

SUMMARY OF CASH RECEIPTS, EXPENDITURES
AND UNENCUMBERED CASH

For the Year Ended December 31, 2011

GOVERNMENTAL TYPE FUNDS	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance	
Debt Service Fund								
Bond and Interest Fund	\$ -	\$ -	\$ 88,197.51	\$ 67,192.32	\$ 21,005.19	\$ -	\$ 21,005.19	Bond and Interest Fund
Capital Project Fund								
Construction Fund	109,649.24	-	789,600.21	722,007.67	177,241.78	-	177,241.78	Construction Fund
PROPRIETARY TYPE FUNDS								
Water Operations Fund	49,200.68	-	174,111.11	151,874.55	71,437.24	8,430.19	79,867.43	Water Operations Fund
TOTAL PRIMARY GOVERNMENT	\$ 158,849.92	\$ -	\$ 1,051,908.83	\$ 941,074.54	\$ 269,684.21	\$ 8,430.19	\$ 278,114.40	TOTAL PRIMARY GOVERNMENT

COMPOSITION OF CASH-Primary Government

First National Bank of Sedan:	
Account No. 288665	\$ 76,599.42
Account No. 309614	177,241.78
Account No. 511862	10,315.45
Account No. 13010	3,268.01
Account No. 12809	10,689.74
TOTAL PRIMARY GOVERNMENT	<u>\$ 278,114.40</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO.4

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

BOND AND INTEREST FUND

For the Year Ended December 31, 2011

CASH RECEIPTS	
Interest Income	\$ 9.23
Transfers	<u>88,188.28</u>
TOTAL CASH RECEIPTS	\$ 88,197.51
EXPENDITURES	
Interest Expense	\$ 63,820.01
Loan Principal Payments	<u>3,372.31</u>
TOTAL EXPENDITURES	<u>\$ 67,192.32</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 21,005.19
UNENCUMBERED CASH, BEGINNING	<u>-</u>
UNENCUMBERED CASH, ENDING	<u><u>\$ 21,005.19</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

WATER CONSTRUCTION FUND

For the Year Ended December 31, 2011

CASH RECEIPTS	
Grant Income - Rural Development	\$ 738,000.00
Grant Income - EPA	51,355.71
Interest Income	<u>244.50</u>
TOTAL CASH RECEIPTS	\$ 789,600.21
EXPENDITURES	
Construction Expense	\$ 595,457.56
Engineering Expense	22,221.00
Inspections	42,726.77
Land/Right A Ways	230.00
Transfers	<u>61,372.34</u>
TOTAL EXPENDITURES	<u>\$ 722,007.67</u>
RECEIPTS OVER (UNDER)	
EXPENDITURES	\$ 67,592.54
UNENCUMBERED CASH, BEGINNING	<u>109,649.24</u>
UNENCUMBERED CASH, ENDING	<u><u>\$ 177,241.78</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

STATEMENT OF CASH RECEIPTS AND EXPENDITURES

WATER OPERATIONS FUND

For the Year Ended December 31, 2011

CASH RECEIPTS

Meter Sales	\$ 18,000.00
Water Sales	145,549.05
Interest Income	278.04
Transfers	<u>10,284.02</u>

TOTAL CASH RECEIPTS	\$ 174,111.11
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EXPENDITURES

Advertising	\$ 165.20
Insurance	13,381.67
Miscellaneous	1,621.89
Office Expense	1,443.66
Payroll Expense	40,328.17
Professional Fees	5,615.11
Repairs and Maintenance	2,222.94
Supplies	3,252.72
Utilities	4,375.77
Vehicle Expense	8,847.46
Water Purchases	33,520.00
Transfers Out	<u>37,099.96</u>

TOTAL EXPENDITURES	\$ 151,874.55
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RECEIPTS OVER (UNDER)

EXPENDITURES	\$ 22,236.56
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UNENCUMBERED CASH, BEGINNING	<u>49,200.68</u>
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UNENCUMBERED CASH, ENDING	<u><u>\$ 71,437.24</u></u>
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THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO 4.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1A. FINANCIAL REPORTING ENTITY

The Chautauqua County Rural Water District No. 4, Sedan, Kansas, is governed by an appointed Board of Directors with seven directors serving as of December 31, 2011. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The Water District's purpose is to purchase water and to build water storage facilities, and water pipelines, to provide water to rural Chautauqua County residents and the City of Longton.

1B. BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

The Water District has approved a resolution that is in compliance with K.S.A. 75-1120a(c) waiving the requirement for application of generally accepted accounting principles and allowing the District to use the statutory basis of accounting.

1C. DEPARTURE FROM ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The basis of accounting described in Note 1B above results in a financial statement presentation which shows cash receipts, expenditures, and cash and unencumbered cash balances. Balance sheets that would have shown non-cash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the Water District are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO 4.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

1D. FUNDS

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

A legal operating budget is not required for the Water District. Spending in the Water District's funds is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

The following types of funds comprise the financial activities of the Chautauqua County Rural Water District No. 4, Sedan, Kansas, for the year 2011:

GOVERNMENTAL FUNDS

Debt Service Funds - to account for the accumulation of resources for, and the payment of, interest and principal on long-term debt, and the financing of special assessments which are general obligations of the Chautauqua County Rural Water District No. 4, Sedan, Kansas.

Capital Projects Funds - to account for financial resources segregated for the acquisition of major capital facilities.

PROPRIETARY FUNDS

Enterprise Funds – to account for operations that are financed and operated in a manner similar to private business enterprises -- where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges -- or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY COMPLIANCE WITH FINANCE-RELATED LEGAL AND CONTRACTUAL MATTERS

Management is not aware of any statutory, finance related or contractual violations applicable to the 2011 year.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO 4.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 3 – DEPOSITS AND INVESTMENTS

As of December 31, 2011, the Water District had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the Water District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Water District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the Water District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Water District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2011.

At year-end the carrying amount of the Water District's deposits, was \$ 278,114.40. The bank balance was \$ 278,468.11. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by one bank, resulting in a concentration of credit risk. Of the bank balance, \$250,000.00 was covered by federal depository insurance and the remaining \$28,468.11 was covered by pledged securities held by the pledging financial institution's agents in the Water District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Water District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

During the year ended December 31, 2011, the Water District had no investments.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO 4.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 4 – LONG TERM DEBT – see pages 13 and 14 for long term debt information.

NOTE 5 - INTERFUND TRANSFERS

Operating transfers during the year were as follows:

<u>From</u>	<u>To</u>	<u>Amount</u>
Construction Fund	Bond and Interest Fund	\$ 51,088.32
Construction Fund	Water Operations	\$ 10,284.02
Water Operations	Bond and Interest Fund	\$ 37,099.96

NOTE 6 – COMPENSATED ABSENCES

Vacation leave is earned at a rate of five (5) working days per year after one year and ten (10) working days after two years for all full-time employees. Permanent part-time employees leave is earned at a rate of five (5) days of four (4) hour days after one year and ten (10) half days the second year. All employees receive one additional day (permanent part time one half day) of vacation each year of employment up to a maximum of twenty (20) days total (permanent part time 20 one half days) vacation time per year, not including weekends.

All full-time employees accrue one sick or personal leave day per month of continuous employment until a maximum of twelve (12) days have accrued per year. Permanent part-time shall accrue ½ day per month for a total of twelve (12) ½ days per year. Unused sick leave up to a maximum of twelve (12) days is added to the sick time allowable during the succeeding year or years which an employee shall be continuously employed by the District to a maximum of 60 days.

The liability for accrued vacation and sick pay is not reflected on the financial statements. Neither the actual or estimated amount of the liability was available at December 31, 2011. The cost of vacation and sick pay are recognized as expenditures when paid.

NOTE 7 - RISK MANAGEMENT

The Water District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settlements of claims have not exceeded coverage during the past three fiscal years.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO 4.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 8 - GRANTS

WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES GRANT

The Chautauqua County Rural Water District No. 4 was formed for the purpose of building and maintaining a distribution system for potable water to be provided to the eastern half of Chautauqua County and Longton, KS. The District began purchasing water from Public Wholesale Water Supply No. 20 in August 2010. Currently they have 375 accounts for which meters have been purchased at \$600-2,500 each (depending on the year they were purchased). On August 1, 2010 the District began selling water to its Phase I customers, and Phase II water sales began June of 2011. See the Schedule of Expenditures of Federal Awards.

The water distribution system will be implemented in three phases.

Phase I

Phase I began in May of 2009 and was in place to provide water to the highest concentration of users by June 30, 2011, with the District beginning to sell water on August 1, 2011. Currently there are 161 meter purchased in the Phase I coverage area. Substantial completion was required by June 30, 2011. Phase I funding came from a CDBG grant to Chautauqua County and from a loan and grant from USDA Rural Development to the District. The District was also required to provide a portion of the funding from its own source.

Phase II

Phase II began November 2009 and is an extension of Phase I. Phase II was expected to be completed in approximately one year from the start date. Phase II extended services to 115 meters. As of August 2011, Phase II was complete. Funding for Phase II was the same as Phase I except that the CDBG funds were replaced with a STAG grant from the EPA.

Phase III

Phase III was expected to begin in the fall of 2011 with approval of grant funds. Phase III funds were not authorized until June 2012. The District has been awarded a USDA Rural Development loan and grant; also, Chautauqua County has been awarded a CDBG grant to be used the same as in Phase I. Plans stipulate that CDBG funds will go to Chautauqua County for the District and an additional CDBG grant was awarded to the City of Longton for a joint project to complete Phase III. Phase III will extend coverage to the remaining 96 customers and the City of Longton, approximately 120 additional meters.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO 4.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 9 - CAPITAL PROJECTS

At year-end, capital project authorizations with approved change orders compared with expenditures from inception are as follows:

	<u>Expenditures To Date</u>	<u>Project Authorization</u>
Water Distribution Construction – Phase I	\$ 2,711,068.62	\$ 2,711,068.62
Water Distribution Construction – Phase II	\$ 3,050,039.24	\$ 3,227,281.06

Both phases of construction are complete as of December 31, 2011; however, Phase II remaining funds will be used to pay interest expense due on Federal loans during 2012 with the remainder transferred to Phase III.

NOTE 10 – USE OF ESTIMATES

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of expenditures during the audit period, encumbrances outstanding, fair value of investments, and disclosure of contingencies at the end of the audit period. Actual results could differ from the estimates.

NOTE 11 – SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL

We noted that, due to the small number of staff, a proper segregation of duties is not attainable. See Section II of the Schedule of Findings and Questioned Costs for additional information.

NOTE 12- SUBSEQUENT EVENT

At the date of the audit report, funding for Phase III had been obtained; however, bidding procedures for the final phase of the project had not begun. Phase III will be funded by a CDBG Block Grant through Chautauqua County and a USDA Rural Development Loan and Grant. Total approved Phase III budget is \$2,389,000.00. The City of Longton, KS was also awarded an additional \$981,344 consisting in equal amounts from USDA Rural Development and a CDBG block grant. These amounts are intended to be used in conjunction with the District's aforementioned grants. Primary project activities are expected to occur during 2013.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4
12/31/11

Notes to the Financial Statements

NOTE 4 - LONG TERM DEBT

Changes in long term liabilities for the Water District for the year ended December 31, 2011, were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
Phase 1 Loan	4.125%	6/22/2009	617,000	6/22/2049	617,000	-	3,372.32	(3,372.32)	613,627.68	38,182.93
Phase 2 Loan	3.250%	3/1/2010	791,000	3/1/2050	791,000	-	-	-	791,000.00	25,637.07
Total Bond Indebtedness / Long-Term Debt										
			<u>\$ 1,408,000.00</u>			<u>\$ -</u>	<u>\$ 3,372.32</u>	<u>\$ (3,372.32)</u>	<u>\$ 1,404,627.68</u>	<u>\$ 63,820.00</u>
									Total Payments Made 2011	<u>67,192.32</u>

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

12/31/11

Notes to the Financial Statements

NOTE 4 - LONG TERM DEBT (cont'd.)

Current maturities of long term debt and interest for the next five years and in five year increments through maturity are as follows:

Principal:	2012	2013	2014	2015	2016	2017- 2021	2022- 2026	2027- 2031	2032- 2036	2037- 2041	2042- 2046	2047- 2050	TOTAL
Phase 1 Loan	\$ 6,974.75	\$ 7,339.10	\$ 7,647.44	\$ 7,968.69	\$ 8,235.60	\$ 46,970.20	\$ 57,703.21	\$ 70,889.46	\$ 87,051.48	\$ 107,001.46	\$ 131,457.05	\$ 74,389.24	\$ 613,627.68
Phase 2 Loan	\$ 8,000.69	\$ 11,094.81	\$ 11,460.57	\$ 11,838.38	\$ 12,160.56	\$ 67,385.05	\$ 79,252.32	\$ 93,210.10	\$ 109,589.60	\$ 128,943.13	\$ 151,654.76	\$ 106,410.03	\$ 791,000.00
Total Principal	\$ 14,975.44	\$ 18,433.91	\$ 19,108.01	\$ 19,807.07	\$ 20,396.16	\$ 114,355.25	\$ 136,955.53	\$ 164,099.56	\$ 196,641.08	\$ 235,944.59	\$ 283,111.81	\$ 180,799.27	\$ 1,404,627.68

Interest:

Phase 1 Loan	\$ 25,233.25	\$ 24,868.90	\$ 24,560.56	\$ 24,239.31	\$ 23,972.40	\$ 114,069.80	\$ 103,336.79	\$ 90,150.54	\$ 73,988.52	\$ 54,038.54	\$ 29,582.95	\$ 3,922.31	\$ 591,963.87
Phase 2 Loan	\$ 44,976.81	\$ 25,265.19	\$ 24,899.43	\$ 24,521.62	\$ 24,199.44	\$ 114,414.95	\$ 102,547.68	\$ 88,589.90	\$ 72,210.40	\$ 52,856.87	\$ 30,145.24	\$ 5,557.67	\$ 610,185.20
Total Interest	\$ 70,210.06	\$ 50,134.09	\$ 49,459.99	\$ 48,760.93	\$ 48,171.84	\$ 228,484.75	\$ 205,884.47	\$ 178,740.44	\$ 146,198.92	\$ 106,895.41	\$ 59,728.19	\$ 9,479.98	\$ 1,202,149.07

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

<u>Agency:</u>	<u>CFDA #</u>	<u>Expenditures (Statutory Basis)</u>
<u>Environmental Protection Agency</u>		
Direct Award:		
STAG Earmark Grant - Chautauqua County Rural Water District No. 4 Infrastructure	66.202	<u>\$ 51,355</u>
<u>U.S. Department of Agriculture</u>		
Direct Award:		
Water and Waste Disposal Systems for Rural Communities - Grant Funds	10.760	<u>\$ 670,408</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u><u>\$ 721,763</u></u>

THE NOTES TO THE FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS ARE AN INTEGRAL PART OF THIS STATEMENT.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

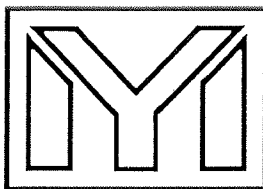
Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2011

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is presented on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Cash disbursements are recognized when the cash balance of a fund is decreased. Expenditures include disbursements, accounts payable and encumbrances.

Note 2. Federal Loans

During the audit period, no funds were expended from Federal Loans. However, \$51,088.32 of Federal funds was expended during the period for payment of interest on Federal Loans. At December 31, 2011, the District's loan balances as stated in Note 4 of the Notes to the Financial Statements is entirely made up of Federal Loan funds.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Chautauqua County Rural Water District No. 4
321 E. Main
Sedan, KS 67361

We have audited the statutory basis financial statements of Chautauqua County Rural Water District No. 4, Sedan, Kansas, as of and for the year ended December 31, 2011, and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit Guide*.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain

deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. See Finding 2011-01.

Compliance and Other Matters

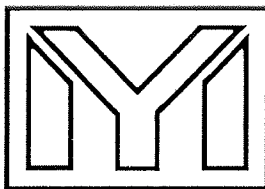
As part of obtaining reasonable assurance about whether the District's statutory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Water District in a separate letter dated September 28, 2012.

This report is intended solely for the information and use of the Board of Directors of the Chautauqua County Rural Water District No. 4, Sedan, Kansas, management, federal awarding agencies and pass through entities and for filing with the State of Kansas, Division of Accounts and Reports and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


YERKES & MICHELS, CPA, LLC

September 28, 2012



YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

John D. Carroll, CPA
Carmen R. Duroni, CPA

Randy Hoffman

American Institute of Certified Public Accountants
Kansas Society of Certified Public Accountants
An Independent C.P.A. Firm

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chautauqua County Rural Water District No. 4
321 E. Main
Sedan, KS 67361

Compliance

We have audited Chautauqua County Rural Water District No. 4, Sedan, Kansas's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Kansas Municipal Audit Guide*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Chautauqua County Rural Water District No. 4, Sedan, Kansas, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Chautauqua County Rural Water District No. 4, Sedan, Kansas, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors of Chautauqua County Rural Water District No. 4, Sedan, Kansas, management, and federal awarding agencies and pass-through entities and for filing with the State of Kansas, Division of Accounts and Reports and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


YERKES & MICHELS, CPA, LLC

September 28, 2012

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2011

Section I – Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Chautauqua County Rural Water District No. 4.
2. A significant deficiency, but no material weaknesses, relating to the audit of the financial statements is reported in the Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Chautauqua County Rural Water District No. 4 which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies or material weaknesses, relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for Chautauqua County Rural Water District No. 4 expresses an unqualified opinion on the major federal program.
6. Audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as a major program were: CFDA #66.202 – EPA Earmark STAG Grant for Chautauqua County Rural Water District No. 4 Infrastructure and CFDA #10.760 – Water and Waste Disposal Systems for Rural Communities.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Chautauqua County Rural Water District No. 4 did not qualify as a low-risk auditee.

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

Internal Controls Over Financial Reporting

Finding 2011-01

Condition: Due to auditing standards, we are required at a minimum to report a significant deficiency on the operations of an entity that has a limited number of staff to perform segregate duties, and properly review procedures as required in an ideal internal control structure. In order to have ideal segregation of duties, the custody of assets, the authorization of transactions involving those assets, and the recording of those transactions should all be performed by separate individuals. In a small entity

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2011

Finding 2011-01 (cont'd)

setting, it is very difficult to maintain ideal segregation of duties. We considered this lack of segregation of duties to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.

Status: At this time, management feels it would be cost prohibitive to increase staff in the Organization's offices sufficiently to rectify this situation. Current office staff and the Board of Directors should, however, continually review the opportunity to implement segregation of duties that will enhance the internal control structure at a minimal cost to the Organization.

Recommendation: We recommend that the office staff continually review their procedures for opportunities to increase the segregation of duties in the office as well as the overall internal controls and oversight over the accounting functions in the office. We recommend the Board be aware of the importance of segregating the office duties in order to maintain a good internal control structure that will aid in the prevention and detection of errors and irregularities whether caused by fraud or human error.

Management's Response: Management agrees with the recommendation and will implement plans for further segregation of duties when it is feasible to hire another employee. Until then it is not feasible to change the current system. See Corrective Action Plan on page 24.

Section III – Federal Award Findings and Questioned Costs

ENVIRONMENTAL PROTECTION AGENCY

CFDA #66.202 – STAG Earmark Grant – Chautauqua County Rural Water District No.4 Infrastructure

No matters were reported.

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA #10.760 – Water and Waste Disposal Systems for Rural Communities:

No matters were reported.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended December 31, 2011

Finding 2010-01:

Cost / benefit considerations have resulted in a continued lack of segregation of duties in current audit report; see the Schedule of Findings and Questioned Costs, Finding 2011-01.

Finding 2010-02:

This finding was in regards to internal control over the compliance requirement of reporting for the EPA Stag Grant. No additional reports for that grant were due during the audit period and the grant is closed out. The remaining grant does not require the types of reports related to the prior year finding. Therefore, this finding is no longer applicable, nor were there instances available to test implementation of the prior year corrective action plan.

Finding 2010-03:

This finding was in regards to non-compliance with the reporting requirement for the EPA Stag Grant. See summary for Finding 2010-02 above for status.

CHAUTAUQUA COUNTY RURAL WATER DISTRICT NO. 4

P.O. Box 10
321 EAST MAIN
SEDAN, KANSAS 67361

EDWIN BOWMAN
CHAIRMAN

PHONE: 620 - 725 - 3013
EMAIL: cqcountyrwd4@sbcglobal.net
FAX: 620 - 725 - 3013

CORRECTIVE ACTION PLAN

September 28, 2012

Recently we were audited for the year ending December 31, 2011, and the following addresses planned corrective actions regarding the findings noted in the Schedule of Findings and Questioned Costs.

Finding 2011-01: Regarding our lack of segregation of financial duties, we feel that at this time we do not have adequate staff to allow for the custody of assets, the authorization of transactions involving those assets, and the recording of these transactions to be performed by separate individuals. When it is feasible to employ more people these duties will be divided up, but until then we cannot change the current system.

Sincerely,



Vivian Shaw
Chautauqua County Rural Water District No. 4